

IRS News Release

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IRS Releases Schedule M-3 for Partnerships

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WASHINGTON - The Internal Revenue Service today released draft Schedule M-3 and instructions for certain partnerships that file Form 1065. When finalized, the Form 1065 Schedule M-3 will be used by affected partnerships starting with tax years ending on or after December 31, 2006.

Schedule M-3 increases transparency in income tax return filings by requiring affected taxpayers to provide a more detailed reconciliation between financial accounting net income and taxable income than in the past.

Partnerships that meet any of four different criteria will be required to file Schedule M-3. The criteria include two asset threshold tests, a total receipts test, or an ownership test.

"Schedule M-3 for partnerships is particularly important," said Deborah M. Nolan, IRS Large and Mid-Size Business Division Commissioner. "Complex enterprises composed of large and mid-size corporations and partnerships are evolving rapidly. The multiple criteria developed to determine which partnerships will be required to file Schedule M-3 ensure uniform tax accounting disclosures by entities similar to or related to LMSB taxpayers."

Like the Schedules M-3 previously introduced for corporate taxpayers filing Forms 1120, 1120-PC, 1120-L or 1120-S, a partnership will be required to file Schedule M-3 if it has \$10 million or more total assets at the end of the tax year.

A partnership will also be required to file Schedule M-3 if it has \$10 million or more in adjusted total assets at the end of the year, \$35 million or more in total receipts, or is 50 percent or more owned by an LMSB or other taxpayer required to file Schedule M-3.

In coming months IRS and Treasury plan to meet with affected stakeholder groups to discuss the new Schedule M-3 and instructions. It is expected that the schedules and instructions will be finalized this coming summer.

The new draft Schedule M-3 and instructions can be found on IRS.gov. The drafts are located on the "corporations" page, which can be accessed from the Web site section that provides information for businesses. The Web site also offers interested taxpayers a subscription to the Schedule M-3 email news service so they can automatically receive future information about Schedule M-3.

During the first year that partnerships are required to file Schedule M-3, certain portions will be optional, as was the case with previously introduced Schedules M-3 for corporations filing Forms 1120, 1120-PC, 1120-L, and 1120-S.

The draft instructions for the Form 1065 Schedule M-3 released today were modeled after the 2005 Form 1120 M-3 instructions released for comment on June 23, 2005. Final changes to the 2005 Form 1120 M-3 instructions are expected later in December 2005 and will be incorporated into the new Schedules M-3 released today following the comment period.

IRS is seeking comments regarding the new draft Schedule M-3 for Form 1065. Comments should be submitted by Tuesday, February 21, 2006 to:

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